

Press Release

S K M Industries

August 17, 2020



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 13.00 crore
Long Term Rating	ACUITE BB-/ Stable (Reaffirmed and Assigned)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned the long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.13.00 crore bank facilities of S K M Industries (SKMI). The outlook is '**Stable**'.

Mumbai-based, S K M Industries (SKMI) was established in 2006 as a partnership firm by Mr. Mihir Kikani and Mr. Sukesh Kikani. The firm is engaged in manufacturing of industrial storage systems and steel cable drums. SKMI has its manufacturing facility at Valsad (Gujarat) with an installed capacity of 500 Tons per month

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SKMI to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established track record**

SKMI established in 2006, has established a presence in domestic as well as international market. The partners are actively involved in the steel industry having over a decade experience. SKMI is engaged in manufacturing, designing and supplying of Steel Cable Drum, Slotted Angles System, Steel, Pallets, Heavy Duty Pallet Racks, Perforated Cable Trays, Compactor System & Strut Channels and other varied Industrial Storage Requirement. The firm is also well supported by the second line of management and has established relationships with its customers and suppliers.

- **Geographically well-diversified and reputed clientele**

The firm caters to reputed clients in domestic as well as international market. The domestic market contributes around 63.60 per cent and rest of 36.40 per cent of the revenue is generated through exports in FY2020 (Provisional). The firm has established relationships of over a decade with reputed clients like Poly Cab Wires, Saudi Modern Co. and Indian Railways to name few. Acuité believes that the firm will be benefited by the experienced management over the medium term.

Weaknesses

- **Declining business risk profile and working capital intensive nature of operations**

The operating income of the firm has declined during the period FY2018 to FY2020 under the study. The operating income stood at Rs. 24.37 crore in FY2020 (Provisional) as against Rs. 24.66 crore in FY2019. The reason for revenues to decline is on account of delay in-order delivery (especially railway), the decline in global demand, and intense competition. The operating margins also stood declined at 8.15 percent in FY2020 (Provisional) as against 8.81 percent in FY2019. The PAT margins stood declined to 0.53 percent in FY2020 (Provisional) as against 1.70 percent in FY2019. Further, the firm has working capital intensive nature of operations marked by Gross Current Assets (GCA) days of 257 in FY2020(Provisional) and 281 days in FY2019. The high GCA is marked by high inventory days to

227 in FY2020 (Provisional) and 230 days in FY2019. The elongation is due to a delay in order execution for government contracts undertaken, resulting in high dependence on working capital limits. The working capital limits stood utilised at 100.00 percent for last six month ending July 2020.

• Average financial risk profile

The financial risk profile of SKMI has remained average marked by tangible net worth of Rs. 5.84 crore as on 31 March, 2020 (Provisional) as against Rs. 5.64 crore as on 31 March, 2019. The gearing stood at 1.87 times as on 31 March, 2020 (Provisional) as against 2.32 times as on 31 March, 2019. The total debt of Rs. 10.93 crore outstanding comprises Rs.0.78 crore as long term loans, Rs. 1.31 from financial institutes, Rs.5.30 crores of working capital term loan and Rs. 3.54 crore as working capital limits from the bank as on 31 March, 2020 (Provisional). The interest coverage ratio stood at 1.24 times in FY2020 (Provisional) as against 1.47 times in FY2019. The net cash accruals stood at Rs.0.39 crore in FY2020 (Provisional) as against Rs.0.71 crore in FY2019. The debt service coverage ratio stood at 1.02 times in FY2020 (Provisional) as against 1.47 times in FY2019.

Rating Sensitivities

- Sustaining existing scale of operations and margins
- Deterioration in financial risk and liquidity profile
- Elongation in the working capital cycle

Liquidity Position: Adequate

SKMI liquidity profile stood adequate during the period FY2018 to FY2020 under the study. The net cash accruals stood at Rs.0.39 crore in FY2020 (Provisional) as against repayment obligation of Rs.0.35 crores. The accruals are expected to remain adequate in range of Rs.0.35-0.75 crores against repayment obligation of Rs.0.35-0.70 crores through FY2021-23. The current ratio stood at 1.46 times in FY2020 (Provisional). The working capital limits stood utilised fully for the last six month ending July 2020.

Outlook: Stable

Acuité believes that the outlook on SKMI will remain 'Stable' over the medium term on the back of the extensive experience of its promoter. The outlook may be revised to 'Positive' if the firm registers substantial growth in revenues and profitability while improving the financial risk profile. The outlook may be revised to 'Negative' if there is a further decline in revenues having an adverse impact on the overall financial position of the firm or any further stretch in its working capital cycle weakening its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	24.37	24.66
PAT	Rs. Cr.	0.13	0.42
PAT Margin	(%)	0.53	1.70
Total Debt/Tangible Net Worth	Times	1.87	2.32
PBDIT/Interest	Times	1.24	1.47

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
13-Aug-2019	Packing Credit	Short Term	2.25	ACUITE A4 (Reaffirmed)
	Cash Credit	Long Term	1.25	ACUITE BB-/ Stable (Reaffirmed)
	Post Shipment Credit	Short Term	3.00	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A4 (Reaffirmed)
14-Aug-2018	Cash Credit	Long Term	1.25	ACUITE BB-/ Stable (Reaffirmed)
	Packing Credit	Short Term	2.25	ACUITE A4 (Reaffirmed)
	Post Shipment Credit	Short Term	3.00	ACUITE A4 (Reaffirmed)
	Letter of Credit	Short Term	6.00	ACUITE A4 (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Reaffirmed)
29-Jun-2018	Cash Credit	Long Term	1.25	ACUITE BB- (Indicative)
	Packing Credit	Short Term	2.25	ACUITE A4 (Indicative)
	Post Shipment Credit	Short Term	3.00	ACUITE A4 (Indicative)
	Letter of Credit	Short Term	6.00	ACUITE A4 (Indicative)
	Bank Guarantee	Short Term	0.50	ACUITE A4 (Indicative)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB-/ Stable (Reaffirmed)
PC/PCFC	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmed)
Post Shipment Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A4 (Reaffirmed)
Working Capital Term Loan	May 2020	Not Applicable	February 2030	4.50	ACUITE BB-/ Stable (Assigned)

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About Acuité Ratings & Research:

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